

BEFORE THE
Federal Communications Commission
WASHINGTON, D. C.

DEC 11 1995

In the Matter of

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| Price Cap Performance Review |) | |
| for Local Exchange Carriers; |) | CC Docket No. 94-1 |
| Treatment of Operator Services |) | CC Docket No. 93-124 |
| Under Price Cap Regulation; |) | CC Docket No. 93-197 |
| Revisions to Price Cap Rules |) | |
| for AT&T |) | |

TO: The Commission

COMMENTS OF LCI INTERNATIONAL, INC.

LCI International, Inc. ("LCI"), by its attorneys, hereby comments upon the Second Further Notice of Proposed Rulemaking ["Notice"] released by the Commission in CC Docket No. 94-1 on September 20, 1995.¹

In these comments, LCI addresses one aspect of the Commission's proposals to relax or remove price cap regulations for local exchange carriers ("LECs") who can demonstrate some degree of local exchange and/or access competition in their markets. Notice at ¶¶ 106-126. In evaluating those proposals, the Commission should understand that the possible future development of some local exchange competition -- either through competing loop facilities, loop unbundling or local exchange resale -- does not have a necessary or even likely impact upon

¹ LCI is a rapidly-growing interexchange carrier ("IXC") using an all-digital fiber optic network to originate switched and dedicated interexchange traffic in all 50 states. In recent years, LCI has achieved one of the highest internal revenue growth rates of any telecommunications company in the United States.

local competition for switched access. New entry into the local exchange market does not mean that IXCs, as purchasers of access to the local loop, will have meaningful competitive choices for switched access services. Therefore, the Commission should not consider giving the LECs greater pricing flexibility for switched access services unless and until the LECs can show that the development of actual competitive alternatives for each type of access service justifies further pricing flexibility for that particular service.

Access to the Local Loop

Local exchange competition does not automatically or even probably translate into switched access competition. Even when an end-user customer has choices among two or more local loop providers, the IXC will have no realistic choice except to purchase local loop access from the local loop provider chosen by the customer, regardless whether that provider is the monopoly LEC or a competitive new entrant. Therefore, even if facilities-based or resale local loop competition begins to develop in certain LEC territories, IXCs will be no less captive to the local loop provider chosen by the customer than they are today.

It is no answer to suggest that IXCs could overcome their dependence upon the customer-selected local loop provider by offering both local exchange and long distance services to end-user customers as a single retail package. IXCs do not have a commercially feasible opportunity to offer local exchange service on a retail basis unless (i) LECs offer meaningful wholesale local

exchange resale products to IXC's and other interconnectors; or (ii) IXC's build their own facilities-based local exchange networks to reach their existing and prospective customers. With respect to the former, no LEC offers a meaningful wholesale local exchange product to IXC's today.² With respect to the latter, the enormous physical and capital barriers to an IXC's construction of an alternative local exchange network are insurmountable for all practical purposes, particularly for smaller IXC's like LCI. Therefore, IXC's are forced to participate in a retail market where they sell long distance products to end-user customers who obtain their local loop from another carrier. In that environment, the existence of some local loop competition does not translate into competitively-driven, cost-based rates for purchasing access to the local loop.

Switched Access Local Transport

The potential development of local exchange competition also does not translate into competitive alternatives for switched access local transport from the LEC's end office to an IXC's point of presence ("POP"). Even with unbundled local loops or local exchange resale products, switched traffic will continue to be aggregated at the LEC's end office for routing via tandem-switched

² Both Rochester Telephone Corporation and Ameritech Corporation have offered, or announced the introduction of, a modest discount off retail local exchange rates for IXC's and other interconnectors. However, neither carrier offers a cost-based wholesale local exchange resale product. Rather, those LECs treat resale carriers as end users qualifying for somewhat lower retail rates based on volume and term commitments, not as carriers entitled to meaningful wholesale service products.

or direct-trunked transport to the IXC's POP. Therefore, the switched access transport market will be no different than it is today. In today's environment, despite regulatory initiatives to promote switched access interconnection and competition, there are virtually no competitive alternatives to the LECs' tandem-switched transport services upon which LCI and other IXCs depend for much or all of their switched traffic. Even for DS1 and DS3 direct-trunked transport, there are few commercially-available alternatives to the transport services offered by monopoly LECs. Therefore, the potential development of local exchange competition will not free IXCs from their current dependence upon LECs for switched access local transport.

Only the development of alternative switch-based local exchange networks will have the capability of migrating traffic away from LEC end offices and onto competing transport networks. However, even in those circumstances, an IXC would normally be forced to accept traffic from, and route traffic to, the switch used by the customer-selected local loop provider. Therefore, while IXCs conceivably might purchase transport from two or more switch-based local carriers in the future, they still could not necessarily or even probably play those carriers against one another in order to obtain competitively-driven, cost-based transport rates.

Conclusion

The Commission recognized in the Notice (at ¶ 27) that "competition in the access market may develop at a different pace


and in a different manner than competition in the provision of local telephone service." LCI urges the Commission to go one step further. In considering its proposals to relax or remove price cap regulation based upon competitive conditions, the Commission should recognize that the development of access competition is for all practical purposes independent of the development of local exchange competition. The Commission should not even consider giving the LECs greater pricing flexibility for switched access services unless and until the LECs can show that the development of actual competitive alternatives for each type of access service justifies further pricing flexibility for that particular service.

Respectfully submitted,

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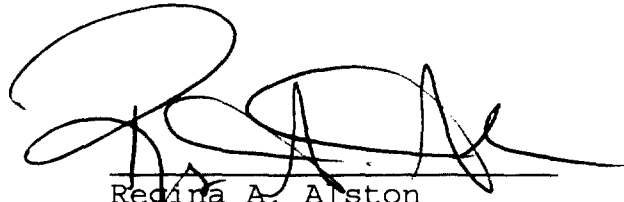
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